

BANK INDONESIA REGULATION  
NUMBER: 7/4/PBI/2005  
CONCERNING  
PRUDENTIAL PRINCIPLES IN ASSET SECURITIZATION FOR  
COMMERCIAL BANKS

THE GOVERNOR OF BANK INDONESIA,

- Considering:
- a. whereas the survival of a bank is also dependent on the ability and effectiveness of the bank in managing credit risk or minimizing potential for loss in managing assets;
  - b. whereas in the management of credit risk, banks may apply techniques for credit risk mitigation by use of asset securitization;
  - c. whereas asset securitization if conducted without compliance with prudential principles may place the bank at greater risk;
  - d. now therefore it is deemed necessary to stipulate prudential principles in asset securitization for commercial banks in a Bank Indonesia Regulation;

- In view of:
1. Act Number 7 of 1992 concerning Banking (State Gazette of the Republic of Indonesia Number 31 of 1992, Supplement to the State Gazette of the Republic of Indonesia Number 3472), as amended by Act Number 10 of 1998 (State Gazette of the Republic of Indonesia

Number 182 of 1998, Supplement to the State Gazette of the Republic of Indonesia Number 3790);

2. Act Number 23 of 1999 concerning Bank Indonesia (State Gazette of the Republic of Indonesia Number 66 of 1999, Supplement to the State Gazette of the Republic of Indonesia Number 3843) as amended by Act Number 3 of 2004 (State Gazette of the Republic of Indonesia Number 7 of 2004, Supplement to the State Gazette of the Republic of Indonesia Number 4357);
3. Act Number 8 of 1995 concerning the Capital Market (State Gazette of the Republic of Indonesia Number 64 of 1995, Supplement to the State Gazette of the Republic of Indonesia Number 3608);

HAS DECREED:

To enact: THE BANK INDONESIA REGULATION CONCERNING PRUDENTIAL PRINCIPLES IN ASSET SECURITIZATION FOR COMMERCIAL BANKS.

CHAPTER I  
GENERAL PROVISIONS

Article 1

The terminology used in this Bank Indonesia Regulation has the following meanings:

1. “Bank” is a Commercial Bank as defined in Act Number 7 of 1992 concerning Banking, as amended by Act Number 10 of 1998 conducting conventional business, including a branch office of a foreign bank.

conventional ...

2. “Asset Securitization” is the issuance of securities by an issuer of asset-backed securities on the basis of transfer of financial assets from the originator followed by payment from the proceeds of sale of asset-backed securities to investors.
3. “Legal Lending Limit”, hereinafter referred to as the LLL, is the LLL as defined in the applicable Bank Indonesia provisions concerning the Legal Lending Limit for Commercial Banks.
4. “Capital” is Bank capital as defined in the applicable Bank Indonesia provisions concerning the Minimum Capital Requirement for Commercial Banks.
5. “Issuer of Asset-Backed Securities”, hereinafter referred to as Issuer, is a legal entity, Collective Investment Contract for Asset-Backed Securities, or other form according to the applicable legal provisions, having the specific objective of conducting activities in Asset Securitization.
6. “Originator” is the party transferring financial assets to the Issuer.
7. “Reference Entity” is the obligor of the underlying reference assets, including:
  - a. the securities issuer, if the underlying reference assets consist of securities;
  - b. the obligor, if the underlying reference assets consist of credit or equivalent claims.
8. “Underlying Reference Asset Value” is the higher value of:
  - a. net realizable value, namely the estimated amount of money to be obtained from the sale of the underlying reference assets at the transaction date, after deduction for transaction costs; or

- b. book value of the underlying reference assets after deduction for specific provision as referred to in the applicable Bank Indonesia provisions concerning Asset Quality Rating for Commercial Banks.
- 9. “Asset-backed Securities”, hereinafter referred to as ABS, are securities issued by an Issuer on the basis of the underlying reference assets provided by an Originator.
- 10. “Credit Enhancement” is a facility extended to an Issuer to enhance the quality of underlying reference assets within the framework of payment to investors.
- 11. “Liquidity Facility” is a bridging facility extended to an Issuer to resolve mismatch in payment of liabilities to investors.
- 12. “Servicer” is any party administering, processing, supervising, and taking other actions to expedite the cash flow of underlying reference assets for the Issuer under an agreement between the parties and the Issuer, including issuing warning to the Reference Entity in the event of payment arrears, conducting negotiations, and settling claims.
- 13. “Custodian Bank” is a Bank providing custodian services for ABS and other assets and services pertaining to Asset Securitization in accordance with the applicable legal provisions.
- 14. “Investor” is any party purchasing ABS.
- 15. “Clean-up Calls” are the purchase by the Servicer of all remaining underlying reference assets prior to maturity.

## Article 2

- (1) Underlying reference assets for Asset Securitization shall comprise financial assets in the form of credit, claims arising from securities, future receivables, and other equivalent financial assets.

(2) Underlying ...

- (2) Underlying reference assets as referred to in paragraph (1) shall fulfill the following criteria:
- a. have cash flow;
  - b. are owned by and under the control of the Originator; and
  - c. freely transferable to the Issuer.

### Article 3

- (1) In Asset Securitization, a Bank may function as:
- a. Originator;
  - b. Credit Enhancer;
  - c. Provider of Liquidity Facility;
  - d. Servicer;
  - e. Custodian Bank;
  - f. Investor.
- (2) Banks performing the functions referred to in paragraph (1) shall meet the following requirements:
- a. the function shall not cause the capital adequacy ratio of the Bank to fall below the level stipulated in the applicable legal provisions; and
  - b. the function is performed in accordance with this Bank Indonesia Regulation and with regard to prudential principles.

CHAPTER II  
CALCULATION OF THE MINIMAL CAPITAL REQUIREMENT IN ASSET  
SECURITIZATION

Part One

Banks Acting as Originators

Article 4

- (1) A Bank may only function as Originator if the underlying reference assets meets the requirements referred to in Article 2 paragraph (2).
- (2) A Bank functioning as Originator may only transfer the underlying reference assets to a domestic Issuer.
- (3) A Bank functioning as Originator may only derecognize underlying reference assets from the balance sheet if the following requirements are met:
  - a. the underlying reference assets transferred from the Originator to the Issuer satisfy the conditions of true sale; and
  - b. the Originator is not a related party of the Issuer.
- (4) Underlying reference assets of a Bank acting as Originator but not meeting the requirements referred to in paragraph (3) shall be reinstated on the balance sheet and calculated into the risk-weighted assets of the Bank, rating of asset quality, and calculation of the LLL.

Article 5

- (1) The condition of true sale as referred to in Article 4 paragraph (3) letter a shall exist if the following requirements are met:
  - a. all benefits obtained or to be obtained from the underlying reference assets have been transferred to the Issuer;

b. the ...

- b. the credit risk of the underlying reference assets has been significantly transferred to the Issuer; and
  - c. the Originator does not exercise control, whether directly or indirectly, over the underlying reference assets.
- (2) Fulfillment of the condition of true sale as referred to in paragraph (1) shall be supported by an independent auditor's opinion and an independent legal opinion.

## Article 6

A Bank is prohibited from becoming an Originator if the transference of underlying reference assets for Asset Securitization would result in reduction in the capital adequacy ratio of the Bank.

## Part Two

### Banks Acting as Credit Enhancers

## Article 7

- (1) A Bank functioning as a Credit Enhancer may provide a Credit Enhancement facility in the form of first loss facility and/or second loss facility.
- (2) Each provision of Credit Enhancement by a Bank as referred to in paragraph (1) shall meet the following requirements:
- a. formalized in an agreement at the beginning of the Asset Securitization, among others stipulating:
    - 1) the amount of facility provided; and
    - 2) the term of facility;

b. provided ...

- b. provided to a maximum of 10% (ten percent) of Underlying Reference Asset Value, if the Bank is also acting as Originator.
- (3) The amount of a Credit Enhancement facility as referred to in paragraph (2) letter a shall not be amended throughout the duration of the agreement.

#### Article 8

- (1) Provision of Credit Enhancement meeting the requirements referred to in Article 7 paragraph (2) and paragraph (3) shall be treated as provision of funds and calculated into the minimum capital requirement, subject to the following provisions:
- a. if the Credit Enhancement is a first loss facility, the Credit Enhancement shall be deductible from Capital in the amount of the first loss facility or the capital charge of Underlying Reference Asset Value, whichever is lower;
  - b. if Credit Enhancement is a second loss facility, the Credit Enhancement shall be a component of risk-weighted assets.
- (2) Provision of Credit Enhancement not meeting the requirements referred to in Article 7 paragraph (2) and paragraph (3) shall be treated as provision of funds and calculated into the minimum capital requirement, subject to the following provisions:
- a. as deduction from Capital in the amount of the Credit Enhancement or the capital charges of Underlying Reference Asset Value, whichever is lower, and as a component of risk-weighted assets in the amount of the Credit Enhancement if the Bank providing the Credit Enhancement is also Originator; or
  - b. as deduction from Capital in the amount of the Credit Enhancement or the Capital charges of Underlying Reference Asset Value, whichever is

whichever ...



lower, if the Bank providing the Credit Enhancement is not the Originator.

### Part Three

#### Bank Acting as Provider of Liquidity Facility

##### Article 9

- (1) Each provision of Liquidity Facility by a Bank shall meet the following requirements:
- a. formalized in an agreement at the beginning of the Asset Securitization, among others stipulating:
    - 1) the amount of the Liquidity Facility provided; and
    - 2) the term of agreement;
  - b. the term of a Liquidity Facility shall be to a maximum of 90 (ninety) days;
  - c. the maximum amount of a Liquidity Facility that may be provided by a Bank also acting as Originator is 10% (ten percent) of Underlying Reference Asset Value;
  - d. may only be drawn if:
    - 1) the underlying reference assets are of good quality with value at least equal to the disbursement of the Liquidity Facility; or
    - 2) has obtained the guarantee of Credit Enhancement for all underlying reference assets if the underlying reference assets do not meet the requirements referred to in number 1);
  - e. the amount of Liquidity Facility that may be drawn by the Issuer is the lowest of the following:
    - 1) total underlying reference assets of good quality; or

- 2) total underlying reference assets not of good quality, but guaranteed by Credit Enhancement; or
  - 3) an agreed sum;
  - f. hold pre-emptive right to payment in comparison to the rights of Investors concerning any cash flow of the underlying reference assets;
  - g. may only be used to resolve mismatch and directly used to meet payment obligations to Investors; and
  - h. may not be drawn after the Credit Enhancement is used in full.
- (2) The amount of provision of a Liquidity Facility as referred to in paragraph (2) letter a number 1) shall not be amended throughout the duration of the agreement.

#### Article 10

- (1) Provision of a Liquidity Facility by a Bank meeting the requirements referred to in Article 9 shall be treated as provision of funds and calculated into the minimum capital requirement as a component of risk-weighted assets.
- (2) Provision of Liquidity Facility by a Bank not meeting the requirements referred to in Article 9 shall be treated as provision of funds and calculated into the minimum capital requirement, subject to the following provisions:
  - a. as deduction from Capital in the amount of the Liquidity Facility or the amount of capital charges on Underlying Reference Asset Value, whichever is lower, and as a component of risk-weighted assets in the amount of the Liquidity Facility, if the Bank providing the Liquidity Facility is also Originator; or
  - b. as deduction from Capital in the amount of the Liquidity Facility or the amount of capital charges on Underlying Reference Asset Value,

whichever ...

whichever is lower, if the Bank providing the Liquidity Facility is not acting as Originator.

Part Four  
Banks Acting as Servicers  
Article 11

- (1) A Bank functioning as a Servicer shall meet requirements including but are not limited to the following:
  - a. formalized in an agreement at the beginning of the Asset Securitization; and
  - b. supported by adequate administration system.
- (2) A Bank acting as Servicer may exercise Clean-up Call.
- (3) Clean-up Call as referred to in paragraph (2) may only be conducted if it meets the following requirements:
  - a. the maximum residual value of the underlying reference assets is 10% (ten percent) of Underlying Reference Asset Value;
  - b. charges borne by the Bank are greater than the revenue received from administration of underlying reference assets; and
  - c. if the Bank is also Originator and Credit Enhancer, Clean-up Calls may not be exercised to avoid the loss that must be borne by the Originator as Credit Enhancer.

Article 12

- (1) Any Clean-up Call exercised without meeting the requirements referred to in Article 11 paragraph (3) shall be treated as provision of Credit Enhancement.

(2) Any ...

- (2) Any Clean-up Call as referred to in paragraph (1) not exceeding 10% (ten percent) of Underlying Reference Asset Value shall be treated as provision of funds and calculated into the minimum capital requirement as a first loss facility as stipulated in Article 8 paragraph (1) letter a.
- (3) Any Clean-up Call as referred to in paragraph (1) in excess of 10% (ten percent) of Underlying Reference Asset Value shall be treated as provision of funds and calculated into the minimum capital requirement as per Credit Enhancement not meeting the requirements stipulated in Article 8 paragraph (2).

#### Part Five

##### Banks Acting as Custodians

##### Article 13

- (1) A Bank functioning as Custodian Bank shall conduct activities in accordance with the applicable legal provisions.
- (2) Any Bank functioning as Originator and/or Servicer may not act as Custodian Bank.

#### Part Six

##### Banks Acting as Investors

##### Article 14

- (1) Banks may hold ABS through cash purchase or, in the case of a Bank acting as Originator, also by means of exchange with underlying reference assets.
- (2) ABS held by a Bank shall be treated as provision of funds and calculated into the minimum capital requirement, subject to the following provisions:

a. for ...

- a. for ABS in the form of senior tranche, as a component of risk-weighted assets;
- b. for ABS in the form of junior tranche, as deduction from Capital as per the first loss facility stipulated in Article 8 paragraph (1) letter a.

#### Article 15

- (1) Any Bank acting as Investor that is also acting as Originator may only purchase ABS to a maximum of 10% (ten percent) of Underlying Reference Asset Value.
- (2) Purchase of ABS as referred to in paragraph (1) shall be to the maximum permissible provision of funds under the applicable legal provisions concerning the Legal Lending Limit.
- (3) If a Bank fails to comply with the provisions referred to in paragraph (1), the Bank shall calculate the ABS purchase as provision of funds and the ABS purchase shall be calculated into the minimum capital requirement as deduction from Capital in the amount of the ABS purchase or in the amount of Capital charges on Underlying Reference Asset Value, whichever is lower, and as a component of risk-weighted assets in the amount of the purchased ABS.

### CHAPTER III

#### LEGAL LENDING LIMIT AND ASSET QUALITY ASSESSMENT IN ASSET SECURITIZATION

#### Article 16

- (1) In the calculation of the LLL, provision of funds for Asset Securitization is stipulated as provision of funds to Reference Entities.

(2) Provision ...

- (2) Provision of funds to Reference Entities as referred to in paragraph (1) shall be calculated pro rata according to the proportion of underlying reference assets from each Reference Entity.

#### Article 17

- (1) A Bank acting as Originator and also acting as Credit Enhancer, provider of Liquidity Facility, and/or Investor may only provide overall facilities in Asset Securitization to a maximum of 20% (twenty percent) of Underlying Reference Asset Value.
- (2) Compliance with the maximum limit referred to in paragraph (1) shall take into account the maximum limit for each extended facility as referred to in Article 7, Article 9, and Article 15, and shall comply with the applicable legal provisions concerning the LLL.
- (3) Any Bank exceeding the maximum limit referred to in paragraph (1) shall reinstate the underlying reference assets, both on balance sheet and the calculation of risk-weighted assets and shall calculate any excess facility as deduction from Capital.

#### Article 18

- (1) ABS quality rating shall be based on:
  - a. ABS quality in accordance with quality rating of securities as referred to in the Bank Indonesia provisions concerning Asset Quality Assessment for Commercial Banks; or
  - b. underlying reference assets according to the type of underlying reference assets as referred to in the Bank Indonesia provisions

concerning Assets Quality Assessment for Commercial Banks, if there is no rating for the ABS.

- (2) Credit Enhancement and Liquidity Facility quality rating shall be based on the quality of the underlying reference assets according to the type of underlying reference assets as referred to in the Bank Indonesia provisions concerning Asset Quality Assessment for Commercial Banks.

## CHAPTER IV REPORTING

### Article 19

- (1) Any Bank functioning as Originator, Credit Enhancer, provider of Liquidity Credit, Servicer, or Custodian Bank as referred to in Article 4, Article 7, Article 9, Article 11, and Article 13 is required to submit reports to Bank Indonesia.
- (2) Any Bank functioning as Originator as referred to in paragraph (1) shall submit:
  - a. a comprehensive report on planned transfer of underlying reference assets for Asset Securitization no later than 30 (thirty) days prior to signature of the underlying reference assets transfer agreement; and
  - b. a comprehensive report on the completed transfer of underlying reference assets for Asset Securitization no later than 7 (seven) working days after signature of the underlying reference assets transfer agreement.
- (3) Any Bank functioning as Credit Enhancer, provider of Liquidity Facility, Servicer, or Custodian Bank but not as Originator as referred to in paragraph (2) shall submit an activity report no later than 7 (seven) working days after signature of the agreement.

- (4) Reports as referred to in paragraph (2) and paragraph (3) shall enclose data and information pertaining to the Asset Securitization activities.
- (5) If a Bank performs more than 1 (one) function in an Asset Securitization activity, the Bank shall submit reports for the various functions as an integral whole.

## Article 20

- (1) Any Bank acting as Originator shall be deemed late in report submission as referred to in Article 19 paragraph (2) letter a if the Bank submits the report past the deadline for submission as referred to in Article 19 paragraph (2) letter a and up to 1 (one) day prior to signature of agreement.
- (2) Any Bank acting as Originator, Credit Enhancer, provider of Liquidity Facility, Servicer, or Custodian Bank shall be deemed late in report submission as referred to in Article 19 paragraph (2) letter b and paragraph (3) if the Bank submits the report within a period of 7 (seven) working days past the deadline for report submission as referred to in Article 19 paragraph (2) letter b and paragraph (3).

## Article 21

Reports as referred to in Article 19 and Article 20 shall be submitted to Bank Indonesia at the following addresses:

- a. relevant Directorate of Bank Supervision, Jl. MH. Thamrin No. 2, Jakarta 10110, for a Bank having its head office in the working area of the Bank Indonesia Head Office;
- b. local Bank Indonesia Regional Office, for a Bank having its head office outside the working area of the Bank Indonesia Head Office.



## CHAPTER V

### SANCTIONS

#### Article 22

- (1) Any Bank submitting a late report as referred to in Article 20 paragraph (1) and paragraph (2) shall be liable to a financial penalty of Rp 1,000,000 (one million rupiahs) for each working day of delay.
- (2) Any Bank failing to submit a report by the expiration of the period for late submission as referred to in Article 20 paragraph (1) and paragraph (2) shall be liable to a financial penalty of Rp 50,000,000 (fifty million rupiahs).

#### Article 23

Any Bank conducting activities in Asset Securitization but not complying with the provisions stipulated in this Bank Indonesia Regulation and its implementing regulations shall be liable to administrative sanctions in the form of:

- a. written warning;
  - b. freezing of specified business activities,
- as referred to in Article 52 of Act Number 7 of 1992 concerning Banking as amended by Act Number 10 of 1998.

## CHAPTER VI

### CONCLUDING PROVISIONS

#### Article 24

Further provisions necessary to the implementation of this Bank Indonesia Regulation shall be stipulated in a Circular Letter of Bank Indonesia.

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Article 25

This Bank Indonesia Regulation shall come into force on the date of its enactment.

Enacted in: Jakarta

Dated: January 20, 2005

THE GOVERNOR OF BANK INDONESIA

BURHANUDDIN ABDULLAH

SUPPLEMENT TO THE STATE GAZETTE OF THE REPUBLIC OF  
INDONESIA NUMBER 14 OF 2005  
DPNP

ELUCIDATION  
TO  
BANK INDONESIA REGULATION  
NUMBER: 7/4/PBI/2005  
CONCERNING  
PRUDENTIAL PRINCIPLES IN ASSET SECURITIZATION FOR  
COMMERCIAL BANKS

GENERAL REVIEW

In the course of their business, Banks face various risks, among others credit risk, namely risk arising from default by a counterparty. This risk in essence may arise from the various major business lines of a bank, such as credit, treasury, investment, and trade finance.

To mitigate credit risk, banks commonly employ various precautionary measures, including but not limited to guarantee deposits, insurance, or collateral. In keeping with trends in business, complexity of transactions, and types of risk, international best practices now recognize another technique of credit risk mitigation, namely that of Asset Securitization.

Asset Securitization, comprising the transfer of financial assets from an Originator to another party, is viewed as an activity with great potential for Banks. The use of Asset Securitization is expected to enable Banks to improve their management of credit risk. This has implications for the calculation of the minimum capital requirement and may also provide Banks with increased liquidity to support intermediation activities.

In order to reap benefits from Asset Securitization, it is necessary to establish regulations for prudential principles in Asset Securitization as a basis

and ...

and guide enabling Banks to engage in Asset Securitization activities in an effective manner.

## ARTICLE BY ARTICLE

### Article 1

Self-explanatory.

### Article 2

#### Paragraph (1)

Self-explanatory.

#### Paragraph (2)

##### Letter a

Financial assets/claims from past due agreements and/or written off the books do not meet the criteria for having cash flow.

##### Letter b

This understanding includes but is not limited to future receivables such as credit card claims.

##### Letter c

“Freely transferable” is defined as including but not limited to not always requiring an accompanying notification to the debtor.

### Article 3

#### Paragraph (1)

Self-explanatory.

Paragraph (2) ...

Paragraph (2)

Letter a

Self-explanatory.

Letter b

“Prudential principles” are defined as in accordance with the applicable legal provisions, including but not limited to provisions concerning the Asset Quality Rating for Commercial Banks, the Legal Lending Limit for Commercial Banks, sound lending principles, and principles for application of risk management.

Article 4

Paragraph (1)

Self-explanatory.

Paragraph (2)

The form of domestic Issuer governed under the laws and regulations of Indonesia at this time is Asset-Backed Securities Collective Investment Contract (ABS-CIC), namely a Collective Investment Contract made between an Investment Manager and a Custodian Bank.

Paragraph (3)

“Risk-weighted assets” are defined as risk-weighted assets as referred to in the applicable Bank Indonesia provisions concerning the Minimum Capital Requirement for Commercial Banks.

Letter a

Self-explanatory.

Letter b ...

Letter b

If an Issuer is an ABS-CIC, “Issuer” is defined as Investment Manager in accordance with the applicable legal provisions.

“Related party” is defined as related party as referred to in the applicable Bank Indonesia provisions concerning the Legal Lending Limit for Commercial Banks.

Paragraph (4)

Reinstatement of underlying reference assets on balance sheet shall not mean the cancellation of any transaction previously conducted in the underlying reference assets.

Recalculation of credit risk for underlying reference assets is in accordance with the applicable legal provisions, including but not limited to provisions concerning the Minimum Capital Requirement, Asset Quality Rating for Commercial Banks, and the Legal Lending Limit for Commercial Banks.

Article 5

Paragraph (1)

Letter a

The understanding of benefits includes rights to cash flow from the underlying reference assets.

If an Originator acting as Servicer continues to receive cash flow from the underlying reference assets, the Originator may only pass through the cash flow to the Issuer or other party appointed by the Issuer.

Letter b

Transfer of risk shall be deemed not significant, among others, if:

1. the ...

1. the Originator provides Credit Enhancement and/or Liquidity Facility and/or acts as Investor in excess of 20% (twenty percent) of Underlying Reference Asset Value;
2. payment received by the Originator on underlying reference assets transferred to the Issuer originates from a facility extended by the Originator, whether directly or indirectly.

Letter c

Control, whether exercised directly or indirectly, may be ascertained among others from:

1. ability to use and/or collateralize the underlying reference assets;
2. the existence or otherwise of contractual terms and/or agreement that would impede the transfer, use, and/or collateralization of the underlying reference assets, such as call option or agreement to repurchase the underlying reference assets.

Paragraph (2)

Independent auditor's opinion is the opinion of a Public Accountant's Office registered with Bank Indonesia and the Capital Market Supervisory Agency.

Independent legal opinion is an opinion by a Legal Consultant registered with the Capital Market Supervisory Agency.

Article 6

Decrease in the capital adequacy ratio (CAR) of the Bank shall be calculated before taking account of other facilities that may be provided/extended by the Originator, including but not limited to Credit

Enhancement, Liquidity Facility, and/or Clean-up Call, and the charges incurred in the process of transfer of the underlying reference assets, but not including any discount (haircut) that may be extended.

## Article 7

### Paragraph (1)

“First loss facility” is defined as the primary Credit Enhancement to cover part or all of the credit risk arising from the underlying reference assets for ABS.

“Second loss facility” is defined as a secondary Credit Enhancement to cover part or all of the remaining credit risk not covered by a first loss facility.

The second loss facility shall be provided after the availability of a first loss facility.

Credit Enhancement may comprise, among others, a bank guarantee, cash collateral, overcollateralization, junior tranche, and all other forms of facilities with the objective of enhancing the underlying reference asset quality.

### Paragraph (2)

#### Letter a

Self-explanatory.

#### Letter b

Provision of facility in accordance with the maximum limit may not exceed the maximum permissible provision of funds under the applicable legal provisions concerning the Legal Lending Limit for Commercial Banks.

Paragraph (3) ...



Paragraph (3)

Self-explanatory.

Article 8

Paragraph (1)

Treatment of Credit Enhancement provided by the Bank as provision of funds is in accordance with the applicable legal provisions, including but not limited to Asset Quality Rating for Commercial Banks and the Legal Lending Limit for Commercial Banks.

Letter a

First loss facility includes any junior tranche.

“Capital charge on Underlying Reference Asset Value” is defined as the amount of Capital that must be made available to cover credit risk of an underlying reference asset, taking into account the provisions concerning the 8% (eight percent) Minimum Capital Requirement.

Letter b

Calculation of risk-weighted assets shall be based on the risk weighting of the underlying reference assets in accordance with the applicable legal provisions concerning the Minimum Capital Requirement.

Paragraph (2)

Self-explanatory.

## Article 9

### Paragraph (1)

#### Letter a

Self-explanatory.

#### Letter b

“Days” are defined as calendar days.

#### Letter c

Provision of facility according to the maximum limit may not exceed the maximum provision of funds in accordance with the applicable legal provisions concerning the Legal Lending Limit.

#### Letter d

“Underlying reference assets of good quality” are defined as underlying reference assets with payment arrears of up to 90 (ninety) days.

#### Letter e

Self-explanatory.

#### Letter f

Self-explanatory.

#### Letter g

Self-explanatory.

#### Letter h

Self-explanatory.

### Paragraph (2)

Self-explanatory.

## Article 10

### Paragraph (1)

Treatment of Liquidity Facility extended by the Bank as provision of funds is in accordance with the applicable legal provisions, including but not limited to the provisions concerning Asset Quality Rating for Commercial Banks and the Legal Lending Limit for Commercial Banks.

### Paragraph (2)

Self-explanatory.

## Article 11

### Paragraph (1)

Self-explanatory.

### Paragraph (2)

Self-explanatory.

### Paragraph (3)

#### Letter a

“Residual value of underlying reference assets” is defined as the residual book value of the underlying reference assets.

#### Letter b

Self-explanatory.

#### Letter c

Self-explanatory.

## Article 12

Self-explanatory.

Article 13 ...

## Article 13

### Paragraph (1)

“Applicable legal provisions” is defined as including but not limited to the Regulation of the Capital Market Supervisory Agency concerning Custodian Banks.

### Paragraph (2)

Self-explanatory.

## Article 14

### Paragraph (1)

Cash purchase may be conducted by payment in cash, clearing, overbooking, or other means of payment.

ABS purchased by a Bank may comprise ABS issued by a domestic Issuer or overseas Issuer.

### Paragraph (2)

Treatment of ABS held by the Bank as provision of funds is in accordance with the applicable legal provisions, including but not limited to the provisions concerning Asset Quality Rating for Commercial Banks and the Legal Lending Limit for Commercial Banks.

### Letter a

ABS in the form of senior tranche is a class of ABS with pre-emptive right to payment on each cash flow of the underlying

reference assets in comparison to ABS in the form of junior tranche.

ABS risk-weighted assets shall be calculated in accordance with the applicable legal provisions concerning the Minimum Capital Requirement for Commercial Banks.

Letter b

ABS in the form of junior tranche is one form of first loss facility.

#### Article 15

Self-explanatory.

#### Article 16

Self-explanatory.

#### Article 17

Paragraph (1)

Included in this maximum limit is any Clean-up Call that does not meet requirements and is therefore treated as provision of Credit Enhancement.

Paragraph (2)

Self-explanatory.

Paragraph (3)

In respect of exceeding the maximum limit, the requirement for calculating each facility as provision of funds and calculation into the

minimum ...

minimum capital requirement shall not change in accordance with the applicable legal provisions for each facility.

“Excess facility” is defined as the difference between the total for all extended facilities and the maximum limit established at 20% (twenty percent) of Underlying Reference Asset Value.

## Article 18

### Paragraph (1)

Self-explanatory.

### Paragraph (2)

Quality rating of Credit Enhancement and Liquidity Facility shall be calculated pro rata according to the type of underlying reference assets.

## Article 19

### Paragraph (1)

Self-explanatory.

### Paragraph (2)

“Days” in letter a are defined as calendar days.

This report shall include any report of provision of other facilities by the Originator and other parties within the framework of Asset Securitization.

### Paragraph (3)

The report as Credit Enhancer shall include any purchase of junior tranche ABS by the Originator on the secondary market.

The report as Servicer shall include any conduct of Clean-up Call.

Paragraph (4) ...

Paragraph (4)

Self-explanatory.

Paragraph (5)

Self-explanatory.

Article 20

Self-explanatory.

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Article 21

Self-explanatory.

Article 22

Self-explanatory.

Article 23

Self-explanatory.

Article 24

Self-explanatory.

Article 25

Self-explanatory.